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August 16, 2004

VIA HAND DELIVERY

Pat Miller, Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37219

Re: Petition of Chattanooga Gas Company for Approval of Adjustment of its Rates and Charges and Revised Tariff
Docket Number 04-00034
Rebuttal Testimony of Chattanooga Gas Company

Dear Chairman Miller:

Enclosed you will find the original and fourteen copies of the rebuttal testimony of Chattanooga Gas Company. This filing includes testimony from Steve Lindsey, Mike Morley, Richard Lonn, Dr. Roger A. Morin, Darilyn Jones and Doug Schantz.

Sincerely,

D. Billye Sanders

D. Billye Sanders
Attorney for Chattanooga Gas Company

DBS/hmd
Enclosures

cc: Archie Hickerson
Steve Lindsey
John Ebert, Esq.
Elizabeth Wade, Esq.

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CERTIFICATE OF SERVICE

I hereby certify that on this 16th day of August 2004, a true and correct copy of the enclosed rebuttal testimony was delivered by hand delivery, email, facsimile or U.S. mail postage prepaid to the other Counsel of Record listed below.

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BEFORE THE

TENNESSEE REGULATORY AUTHORITY

REBUTTAL TESTIMONY
of
RICHARD LONN

IN RE:
CHATTANOOGA GAS COMPANY
Docket 04-00034

Q. PLEASE STATE YOUR NAME, POSITION AND ADDRESS

A. Richard Lonn, Director, Regulatory Compliance, AGL Services Company. My business address is 10 Peachtree Place, Location 1365, Georgia 30309

Q. DID YOU FILE DIRECT TESTIMONY IN THIS PROCEEDING ON BEHALF OF THE CHATTANOOGA GAS COMPANY?

A Yes, I did.

Q. PLEASE DESCRIBE THE PURPOSE OF YOUR REBUTTAL TESTIMONY.

A To provide rebuttal testimony to Mr McGriff's and Mr. Chrysler's testimony on the proposed Bare Steel/Cast Iron replacement program and tracker.

Q. PLEASE SUMMARIZE MR. MCGRIFF'S TESTIMONY.

A. First that the Federal Government through Pipeline Safety Regulations and an Alert notice recommends the replacement of all cast iron pipe and bare steel pipe. Second, that a Rule NISI was issued against Atlanta Gas Light Company (AGLC) in January 1998 due to the large number of leaks identified in Atlanta in the mid 90's and for 12 other identified deficiencies not directly related to pipe replacement Third, that a separate rider was instituted by the Georgia Public Service Commission (GPSC) because it was believed that this methodology would reduce rate shock. Fourth, that the rider mechanism has placed a tremendous burden on the GPSC's Natural Gas Staff Fifth, that a separate revenue tracker is not necessary given the small relative size of the proposed replacement program and the fact that the proposed program is "known and measurable" and could be readily incorporated into base rates in this case.

Q. DO YOU AGREE WITH PARTS OF MR. MCGRIFF'S TESTIMONY?

A. Absolutely Mr McGriff is correct in his statements related to the scope of the Rule NISI in Georgia, the regulatory basis and need for Bare Steel and Cast Iron replacement programs and the fact that one of the principal reasons for a rider was to reduce rate shock.

Q. WHAT ABOUT THE ISSUE OF A TRACKER PLACING A TREMENDOUS BURDEN ON THE NATURAL GAS STAFF?

A. The stipulated agreement which came about as a result of the Rule NISI in Georgia has only one required reporting requirement which is the requirement for an annual progress and cost recovery filing. Any requirements beyond that which may be putting an undue burden are at the discretion of staff as to the scope , frequency and methodology.

Q. MR LONN, HAVE YOU BEEN INVOLVED WITH THE AUDITING OF THE GEORGIA REPLACMENT PROGRAM?

A. Yes, I have been the head of the Company's audit team since the middle of year one of the program and have worked with GPSC staff on the auditing of this program for over five years Additionally, I have prepared or have had prepared under my direction every annual filing since the start of the program.

Q. **WHAT ARE THE CURRENT REQUIREMENTS THAT THE STAFF HAS REQUESTED?**

A. For the past year and a half or so, they have requested: monthly meetings to discuss to the program and to review the program financials; quarterly meetings to pick items to be reviewed at the quarterly audits and then normally a two to four day long quarterly audit with up to five staffers to review every expenditure of $1000 or more. Additionally, they have submitted eight formal data requests packets related to the program in that same period.

Q. **HAS IT ALWAYS BEEN THIS WAY?**

A. No it has not. The GPSC Gas Staff has had three staff leads handling the review of the program over the six years of the program and for the first four and ½ years of the program the impact on both the GPSC Gas Staff and Company was much less. There were no monthly meetings, only the quarterly audits which were limited to a random review of items rather than a review of every single expenditure of over $1000 Additionally, there were no formal data requests either. Questions, answers and issues raised by both parties were handled in person or by email, quickly and efficiently.

Q. **WOULD THE IMPACT OF THE PROPOSED TRACKER IN TENNESSEE PLACE A MAJOR BURDEN ON TRA STAFF?**

A. While I certainly cannot speak for TRA staff, what I can tell you is that the proposed tracker for CGC is for only 10 miles of pipe replacement a year, compared to over 250 miles a year in Georgia and it also does not include the other 12 issues mentioned in Mr. McGriff's testimony, which were part of the Stipulation agreement in Georgia.

So it could most probably be handled with a single annual staff audit of no more than two days duration by one to two staff, even if they were to audit every expenditure of $1000 or more, which is far less than the time that would have to be invested by TRA staff than if the Company instead had to file multiple rate cases or even a single rate case. It should be noted that since the implementation of AGLC's bare steel cast iron program the GPSC has voted to implement two additional similar programs in two other jurisdictions under its control.

Q. DO YOU AGREE WITH MR. McGRIFF THAT SINCE THE PROPOSED REPLACEMENT PROGRAM IS ONLY 10 MILES A YEAR AND "KNOWN AND MEASURABLE" THAT THERE IS IN FACT NO NEED FOR A RIDER?

A No. First the "known and measurable" issue While the duration of the program is known, that is the only thing that we know with certainty. The mileage is our best estimate based on our records and work history. It could certainly change just like it did in Georgia where AGLC identified an additional 192 miles of pipe several years after the start of the bare steel/cast iron replacement program or as Mr Chrysler noted in his testimony where Atmos discovered an additional 24 miles of pipe. In fact CGC has updated its mileages in both 2002 and 2003 as well when submitting its annual DOT reports. Also the costs are estimates. If the GPSC had taken the position at the start of the program that the costs were "known" based on the original estimates and historical costs of the Company and had included the costs in base rates, instead of approving a rider, then the customers of Georgia would have paid over twice as much for the replacement program to date. The cost tracker mechanism insures customers only pay actual cost required to implement the program.

Concerning Mr. McGriff's statement that since it is only 10 miles a year, a tracker is not necessary, I would also disagree because the fact is that the financial impact of 10 miles a year for 60,000 customers is in fact virtually identical on a per customer basis to the 250 miles per year in Georgia with 1.5 million customers.

Q. ANYTHING ELSE RELATED TO MR. McGRIFF'S TESTIMONY?

A. Yes. In Supplemental Discovery Item #30, Mr. McGriff indicated that the reason the program is ""known and measurable" and could readily be incorporated into rates in the present case was based on the fact that between the years 1989 and 1997 the Atlanta Gas Light Company replaced an average of 60 miles of cast iron main and bare steel a year without a separate rider or annual rate case." While it is true that the Company did not file annual rate cases in that 8 year period, I think it is very important to know that the Company in fact filed 5 rate cases in that 8 year period. Then the rider was put into place in 1998 and since that time AGLC has not initiated a request for or received a rate increase in the six years since. AGLC has spent tremendous focus and process enhancement ensuring that the cost of the replacement program is as low as possible. We understand that gas is a fuel of choice and that we must always focus on reducing the cost of our product to our customer.

Q. COULD YOU PLEASE SUMMARIZE THE AREAS OF CONCERN IN MR. CHRYSLER'S TESTIMONY AS IT RELATES TO THE BARE STEEL/CAST IRON REPLACEMENT TRACKER?

A. In his testimony he raises two issues related to bare steel cast iron which are incorrect. I attribute this to a misunderstanding of some of the details related to CGC's annual DOT reports and the Company's proposal in Tennessee and his lack of experience and first hand knowledge of the existing rider in Georgia also contributed to the error. One of the issues where he is wrong relates to the relative historical replacement rates vs. the proposed program replacement rates and the fact that the proposed CGC tracker is in fact a "scheme" to "immediately recover applicable and improper Capital and Operations and Maintenance costs." The tracker is not a "scheme" but a responsible mechanism which ensures the utility has primary focus on reducing the program costs and immediately passing those savings on to customers.

Q. PLEASE EXPAND ON THE ISSUE AROUND RELATIVE REPLACEMENT RATES.

A In Mr Chrysler's response he has tried to suggest that there is no need for a pipeline replacement tracker by indicating that the Company replaced an average of 32 5 miles of pipe per year between 1990 and 2000 for CGC without a tracker and then comparing that to the 10 miles per year proposed by the Company. He has done this by comparing apples and oranges The Company's proposal is for the replacement of 10 miles of **mains** per year which is the pipe that is larger in diameter, more costly to replace and where one pipe can serve hundreds or even thousands of customers. **Mr. Chrysler** has included in his numbers almost 10,000 individual **service lines** that normally serve only one house and are of very small diameter (Usually ½" or ¾" in diameter) If you correct Mr Chrysler's numbers by removing the services, the facts change significantly The average miles of main replaced between 1990 and 2000 is in fact 15.5 miles, not 32.4. If you look at the data from a more recent historical perspective, from 1996 to 2001 to see what replacement rates are, you will find that in 1996 CGC had 139 miles of bare steel and cast iron main on its books and in 2001

CGC had 122 miles for a total of a total reduction of 17 miles over 5 years, which works out to **3.4 miles a year** or a 1/3 of what is being proposed by the Company.

One other thing; the reason I did not include 2002 and 2003 data in that analysis is because to the best of my knowledge no replacement work was done in either of those years, but the mileages were corrected upward one year and downward the next. However, in both cases, these changes in reported mileages were due to enhancements to the Company's records, not due to actual replacement work. If you were to include those years though, with no replacement work done, the average mileage per year replaced for the most recent seven years of history would actually be reduced to **2.4 miles per year**!

Q. WHAT ABOUT MR. CHRYSLER'S STATEMENT THAT THE PRP IS A "SCHEME" TO RECOVER "IMPROPER CAPITAL COSTS AND OPERATION AND MAINTENANCE EXPENSES"?

A. First , unlike the plan in Georgia, the proposed replacement program in Tennessee is proposed as a capital program. There is no proposed O & M component to be "schemed", as Mr Chrysler asserts Second, my assumption after reading Mr. Chrysler's testimony on the subject of improper capital costs is that he has taken Mr. Wackerly's staff report as the gospel truth since it is supportive of his position without reviewing all of the details associated with the particular project, the results of the GPSC's order, or the replacement program as a whole. He appears to have put on omitted the fact that this project is the only one that has ever been challenged this way out of hundreds and hundreds of projects over the first six years of the replacement program in Georgia. This issue represents just one project out of over

$310 million in capital expenditures. This was a case where AGLC used a creative solution that saved rate payers over $13 million dollars by using a different approach than just pipe for pipe replacement

Q. COULD YOU PLEASE COVER THE DETAILS OF THAT ONE PROJECT?

A. Certainly. The East Point replacement project which Mr. Wackerly referenced was one of the first large diameter projects of the AGLC program to come up for replacement in a highly urban environment. The initial proposal was for a 24" steel main to be run through the heart of the city of East Point as well as the cities of Hapeville and Atlanta. To install this large diameter pipe in that congested environment, the cost was estimated to be $26 Million. Given the magnitude of that expenditure, the Company went in search of less expensive alternatives and came back with two, one of which was an alternate route to the west of the city of East Point on an existing right-of-way at an estimated cost of $20 million and a second alternative which would have required active and cooperative participation from AGLC's largest supplier, Southern Natural Gas (SNG), but would have been the cheapest alternative of the three at a cost of $ 12.7 million.

Q. SO THE COMPANY ACTUALLY WAS LOOKING FOR WAYS TO SAVE THE CUSTOMERS MONEY?

A. Absolutely. You see the Stipulation in Georgia states **"The Company shall be entitled to the recovery of <u>all</u> net prudent costs of the performance of this stipulation."** so AGLC was trying to ensure prudency around this project and actually saved the rate payers $13.3 million. Certainly a far cry from the fear of "inflated costs" being raised by Mr. Chrysler.

Q. SO WHAT ABOUT THE "IMPROPER COSTS" ISSUE RAISED BY MR. CHRYSLER?

A Two things. As you can see in the response above, the Stipulation in Georgia indicates that "The Company shall be entitled to the recovery of all net prudent cost of the performance of this stipulation." That was the premise under which the original design and the prudency review occurred, so there was no expectation that costs associated with a project that would save the customers $13.3 million would not be recoverable. We thought the word "All" in the rider meant all. Second, while Mr. Chrysler was most anxious to show the language in the order (Chrysler Exhibit MDC GP PRP 1) stating that several cost items were inappropriately charged, what was not mentioned was that the final result of that order was that the Company **was allowed to recover all $3.3 million** of the costs which it had incurred on the project and was directed to continue to pursue the low cost option which the Company had engineered unless it could find an even more cost efficient solution. The Commission recognized that this approach had saved customers real dollars and as such approved these expenditures for right-of-way. These costs were included in the rider as prudent.

Q. DOES THAT CONCLUDE.

A Yes it does Thank You.

BEFORE THE
TENNESSEE REGULATORY AUTHROITY

REBUTTAL TESTIMONY
OF
DOUG SCHANTZ

Q. Please state your name and business address.

A. My name is Doug Schantz, and my business address is 1200 Smith Street, Suite 900, Houston, Texas 77002

Q. What is your position with AGL Resources?

A I am President of Sequent Energy Management, LP ("SEM"), which is a subsidiary of AGLR.

Q. Please provide a summary of your background and professional experience.

A. I joined SEM and was named president in May 2003. I lead all aspects of SEM's operations, including natural gas asset management, supply and distribution, marketing, trading and producer services. I also play a key role in developing and implementing long-term growth and business expansion plans for SEM. I have over 20 years experience in the energy industry and natural gas markets, most recently with Houston-based Cinergy Marketing and Trading, a subsidiary of Cinergy Corp. At Cinergy, I held the position of vice president-marketing and business development, where I was responsible for developing and implementing market strategies and completing business development transactions enabling Cinergy to expand its role in the natural gas industry